Lansing Regional SmartZone

Years Ended
June 30, 2022
and 2021

Financial
Statements

Rehmann

LANSING REGIONAL SMARTZONE

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INDEPENDENT AUDITORS' REPORT

December 16, 2022

Members of the Local Development
Finance Authority Board
Lansing, Michigan

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the ***Lansing Regional SmartZone*** (the "SmartZone") as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the SmartZone's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SmartZone as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the SmartZone and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the SmartZone's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SmartZone's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the SmartZone's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 16, 2022, on our consideration of the SmartZone's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SmartZone's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SmartZone's internal control over financial reporting and compliance.

Rehmann Robson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

These financial statements are the responsibility of the Lansing Regional SmartZone's (the "SmartZone") management. We offer readers this narrative overview and analysis for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Ending net position at June 30, 2022 — $ 1,023,803
- Change in total net position for the year ended June 30, 2022 — 350,416

Overview of the Financial Statements

Basic Financial Statements. The SmartZone's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. The SmartZone is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. See Note 1 to the financial statements for a summary of the SmartZone's significant accounting policies.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The SmartZone's net position increased $350,416 over the course of the fiscal year 2022 to a total of $1,023,803. Explanations for those changes are provided below.

	Net Position		
	2022	2021	2020
Assets			
Current assets	$ 1,057,058	$ 701,735	$ 430,371
Liabilities			
Current liabilities	33,255	28,348	62,866
Net position			
Unrestricted	$ 1,023,803	$ 673,387	$ 367,505

Management's Discussion and Analysis

The following condensed financial information was derived from the statement of revenues, expenses and changes in fund net position and reflects how the SmartZone’s net position changed during the fiscal year:

	Change in Net Position		
	2022	2021	2020
Operating revenues	$ 431,026	$ 410,678	$ 251,910
Operating expenses	80,610	104,796	100,626
Change in net position	350,416	305,882	151,284
Net position, beginning of year	673,387	367,505	216,221
Net position, end of year	$ 1,023,803	$ 673,387	$ 367,505

For the years ended June 30, 2022 and 2021, the increase in current assets and net position was due to an increase in revenues as an increase in taxable value resulted in a larger property tax capture in fiscal years 2022 and 2021.

Economic Condition and Outlook

Effective July 1, 2016, the SmartZone, pursuant to the SmartZone & Technology Innovation Center Transfer Agreement, signed June 28, 2016, transferred operations related to the Technology Innovation Center (TIC) to University Corporate Research Park I (UCRPI), a Michigan non-profit corporation.

With the transfer of operations of the TIC to UCRPI, the SmartZone has shifted its focus to exploring programs and resources that can further enhance the quality of entrepreneurship and innovation within the region. Cost control measures have allowed the SmartZone to streamline its budget while increasing services and programs needed.

Management continues to develop strategic plans for the future of the SmartZone.

The SmartZone and the Lansing Economic Area Partnership (LEAP) applied to the State of Michigan to renew the SmartZone’s Tax Increment Financing for an additional 5 years. The application was approved August 29, 2022 by the Michigan Department of Treasury and the Michigan Economic Development Corporation (MEDC).

Requests for Information

This financial report is designed to provide a general overview of the SmartZone's finances for all those with an interest in the SmartZone's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Chief Financial Officer, Lansing Economic Area Partnership, Inc., 1000 S. Washington Avenue, Suite 201, Lansing, Michigan, 48910.

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BASIC FINANCIAL STATEMENTS

LANSING REGIONAL SMARTZONE

Statements of Net Position

June 30

	2022	2021
Assets		
Current assets:		
Cash	$ 1,055,391	$ 701,735
Prepaid items	1,667	-
Total assets (all current)	1,057,058	701,735
Liabilities		
Current liabilities:		
Accounts payable	33,255	28,348
Net position		
Unrestricted	$ 1,023,803	$ 673,387

The accompanying notes are an integral part of these basic financial statements.

LANSING REGIONAL SMARTZONE

Statements of Revenues, Expenses and Changes in Fund Net Position

For the Years Ended June 30

	2022	2021
Operating revenues		
Property tax capture	$ 431,026	$ 410,678
Operating expenses		
Business incubator	10,000	24,236
Contractual services	68,152	78,134
Insurance	2,458	2,426
Total operating expenses	80,610	104,796
Change in net position	350,416	305,882
Net position, beginning of year	673,387	367,505
Net position, end of year	$ 1,023,803	$ 673,387

The accompanying notes are an integral part of these basic financial statements.

LANSING REGIONAL SMARTZONE

Statements of Cash Flows
For the Years Ended June 30

	2022	2021
Cash flows from operating activities		
Receipts from captured taxes	$ 431,026	$ 410,678
Payments to vendors	(77,370)	(139,314)
Net change in cash	353,656	271,364
Cash, beginning of year	701,735	430,371
Cash, end of year	$ 1,055,391	$ 701,735
Reconciliation of change in net position to net cash provided by operating activities		
Change in net position	$ 350,416	$ 305,882
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Change in operating assets and liabilities that provided (used) cash:		
Prepaid items	(1,667)	-
Accounts payable	4,907	(34,518)
Net cash provided by operating activities	$ 353,656	$ 271,364

The accompanying notes are an integral part of these basic financial statements.

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lansing Regional SmartZone (the "SmartZone") conform to generally accepted accounting principles as applied to business-type activities. The following is a summary of the significant policies.

A SmartZone is a local development financing authority that provides a distinct geographical location where technology-based firms, entrepreneurs and researchers locate in close proximity to all the community assets that assist in their endeavors.

Reporting Entity

The SmartZone was created on May 3, 2005 and is authorized under P.A. 281 of 1986. However, fiscal year 2007 was the first year of the SmartZone's financial operations. The SmartZone is governed by the thirteen-member board consisting of four members from the City of East Lansing (one of which shall be represented by the Michigan State University Innovation Center), three members from the City of Lansing (one of which shall be represented by the Michigan State University Research Foundation), one member from Ingham County, one member from Lansing Community College, two members from City of East Lansing Public Schools and two members from the Lansing School District. All members are appointed by their respective councils/boards.

The SmartZone is funded by tax increment financing revenue from the City of East Lansing and City of Lansing LDFA (the "LDFA"). Tax increment financing revenue equates to property tax revenues generated by increases in assessed property values above the base values set when the tax increment financing plan is enacted.

The SmartZone and University Corporate Research Park I (UCPRI) are parties to a sponsorship agreement whereby the SmartZone agree to provide certain funding to the UCRPI for the operation of the Technology Innovation Center (TIC). The SmartZone's annual obligation under this agreement is limited to $40,000.

Basis of Presentation

All operations of the SmartZone are accounted for in a single enterprise fund (a type of proprietary fund). Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Restricted net position is reported for assets that are subject to restrictions beyond the SmartZone's control, less any liabilities payable from such restricted assets. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the SmartZone's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents consist of demand deposits in banks. For the purposes of the statement of cash flows, the SmartZone considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments

State statutes allow the SmartZone to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

- Bankers' acceptances of United States banks.

- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. DEPOSITS

Following is a reconciliation of deposit balances for the SmartZone as of June 30:

	2022	2021
Statement of Net Position		
Cash	$ 1,055,391	$ 701,735
Deposits		
Checking / savings accounts	$ 1,055,391	$ 701,735

Deposit Risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the SmartZone's deposits may not be returned. State law does not require and the SmartZone does not have a policy for deposit custodial credit risk. As of June 30, 2022, $807,086 of the bank balance of $1,057,086 was exposed to custodial credit risk as it was uninsured and uncollateralized. As of June 30, 2021, $451,735 of the bank balance of $701,735 was exposed to custodial credit risk as it was uninsured and uncollateralized.

3. RISK MANAGEMENT

The SmartZone is exposed to various risks of loss related to property loss and related torts. The SmartZone has purchased commercial insurance for all claims related to the previously stated risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three years.

4. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has resulted in operational challenges for the SmartZone as it determines the appropriate methods to provide services to its citizens. At this time, management does not believe that any ongoing negative financial impact related to the pandemic, if any, would be material to the SmartZone.

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INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

December 16, 2022

Members of the Local Development
Finance Authority Board
Lansing, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the ***Lansing Regional SmartZone*** (the "SmartZone"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the SmartZone's basic financial statements, and have issued our report thereon dated December 16, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SmartZone's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SmartZone's internal control. Accordingly, we do not express an opinion on the effectiveness of the SmartZone's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SmartZone's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SmartZone's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC